



Enabling Cost Management for Improved Decision Making

Army Day – PDI 2007

“GFEBS will provide the Army with Cost Management functionality to accurately capture and reflect the true cost of our operations, products and services” - GFEBS Capabilities Design Document

☒ **Cost Management Definition**

- ☐ Army Cost Management Direction
- ☐ How GFEBS will Enable Cost Management
- ☐ Changes from Today's Processes
- ☐ GFEBS Cost Management Process / Status

▪ **The Practice of Understanding What Causes Costs to Occur and Then Using That Information to Achieve a More Desirable Outcome. Benefits Include:**

- ✓ **Reducing Cost and Preserving Resources for Other Military Missions**
- ✓ **Supporting Continuous Improvement and Accountability**
- ✓ **Increasing the Capability to Satisfy Customer Demand**
- ✓ **Analyzing Value Provided by Activities**

Cost Management Sounds Like “Do More With Less” - *It Can Be!*

- *Improves Efficiency and Effectiveness*
- *Identifies & Frees Resources for Alternative Uses*
- *Improved Methods / Processes Lead to Doing More With Less*
- *Provides Quicker / Better Reaction to Resource Constraints*

What is Cost Management?



A Cycle of Determining Cost Information, Forecasting, Measuring, & Reviews Using the Chain of Command:

**Cost
Measurement**



**Cost
Management**

- **Determine Accurate Costs,**
 - *Cost Measurement System to*
- **Gather Cost Data & Information**
- **Forecasting & After Action Reviews**
 - *Improve Business Processes,*
 - *Eliminate Waste,*
 - *Cost Estimating,*
 - *Plan Operations & Set Enterprise*

Cost Measurement is Required



1. **Cost Measurement Has Meaning Only When Considering Its Purpose**
2. **Defining Cost Measurement Should Be Carefully Considered and Evaluated**
3. **Alternative Cost Methods Should Be Evaluated Under Operating Environment**



Purpose Is the key to Understanding Army Cost Model Design (GFEBS)

Army's Cost Management Purpose

Is to Provide Operational Managers

With Relevant "True" Cost

Source: The Federal Accounting Standards Advisory Board (FASAB) SFFAS No. 4: Managerial Cost Accounting Standards

Many ways to Measure Cost

Methodology vs System

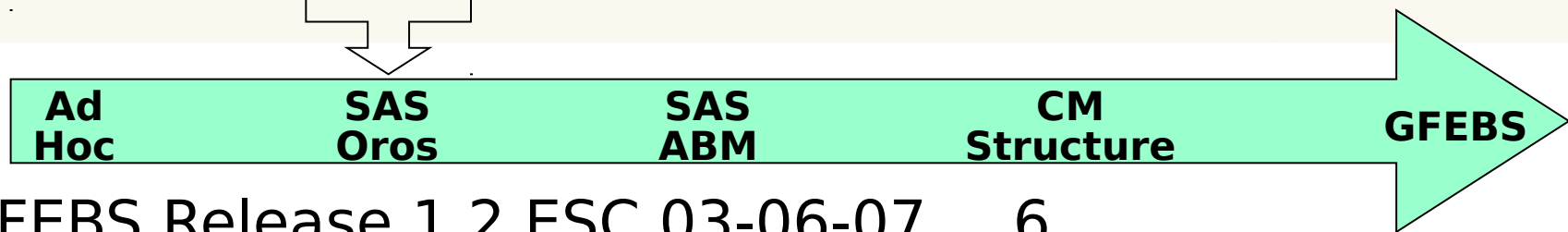


- **Army's Purpose is to Provide Operational Managers With Relevant "True" Cost Information to Make Sound Economic Decisions**
- **Methodologies to Measure Cost (FASAB #4)**
 - Activity Based Costing
 - Job order costing
 - Project costing
 - Incremental costing
 - Hybrid
- **Cost Measurement System**
Gather Cost Data and Information

Traditional vs Cos View			
For Notional Business Process to Account for Installation Property			
<u>Traditional View (Inputs)</u>		<u>Cost View (Activities)</u>	
Salaries	\$501K	Issue Property	\$ 40K
Supplies	44K	Receive/Turn-In Property	72K
Contracts	45K	Maintain Prop. Book	279K
Travel	17K	Store Property	136K
Transportation	19K	Administrative Support	99K
	<u>\$626K</u>		<u>\$626K</u>

Army

Range of Approaches



Cost ~~=~~ Budget ~~=~~ Obligations... GFEBBS

- Cost Accounting / Management New to Most of Army
- Provides Financial and Managerial Information
- Cuts Across financial and operational organizations
- Is Driven by Information Needs of the Operational Army not solely the Financial Community

Budget Formulation

Budget Execution

Cost Management

Budget

»President's financial plan and the priorities for the Federal Government

Focus

»requirements

SAP

»BW/BPS

Data Streams

»requirements, formulations

Key Data Elements

»appropriation, FTE

Questions

»What will I ask for?

Process Dependencies

»budget requests are the base for appropriations

Budget Authority

»Authority to incur obligations

Focus

»availability, obligations

SAP

»FM

Data Streams

»budget, actual COED

Key Data Elements

»appropriations, EOR's, PE, MDEP, projects, BLIN, etc.

Questions

»What funding did I get ?
»What obligations were executed?

Process Dependencies

»consolidates operational expenditures across budget entities

Cost

»Valuation of resources used to produce outputs, basis for decision making

Focus

»full cost

SAP

»CO / BW / BPS

Data Streams

»plan, target, actual expenses -> cost, rates, performance measures

Key Data Elements

»operational entity (e.g. cost centers), services, rates, products, projects, etc.

Questions

»What was expensed?
»What did I get for it?
»How well was it used?

Process Dependencies

»capture full cost components regardless of budget entities/authority

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The Army Requires A Great Deal Of Resources



**Army budget
\$200 billion
annually**

\$ 38 billion of inventory
\$120 billion in general property, plant & equipment
\$ 40 billion environmental liabilities

- **70 Brigade Combat Teams (BCT)**
 - » **42 Active BCT**
 - » **28 USARNG BCT**
- **200 Support Brigades**
 - » **Active, USARNG and USAR**
 - » **Multifunctional, e.g., Combat Aviation, Sustainment**
 - » **Functional, e.g., Engineer, Military Police, Signals**

- **482,000 Active Soldiers**
- **350,000 National Guard Soldiers**
- **205,000 Army Reserve Soldiers**
- **229,000 Civilians**

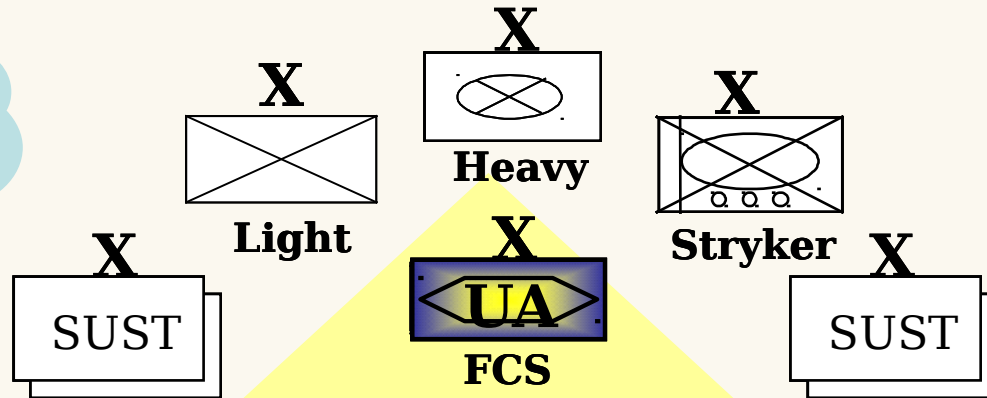
- **10,000 Major Items of Equipment**
- **300,000 Spares and Repair Parts (Army managed)**

GFEBS Release 1.2 ▪ **250 Installations With Thousands Of**

Need to Understand What the Resources Buy – The Army Product



Sets Framework for Developing Army-wide Cost Structure



Force Generation

\$ to Reset
\$ to Train
\$ to Deploy

Training (Ind)

\$ / Student Trng Day
\$ / Course Day

Training (Unit)

\$ / Mile
\$ / Flying Hour
\$ / Weapon System

Base Support

\$ / Service
\$ / Brigade
\$ / Installation (SRM, BOS, Contractor- ENVR, FP)

Personnel

Military- \$ / Soldier
Civilian- \$ / FTE

Equipment

\$ / Brigade New
\$ / Brigade Conversion
Ratio: Sppt \$ / Brigade \$

Cost Management Reporting Requirements



▪ **Cost by Brigade**

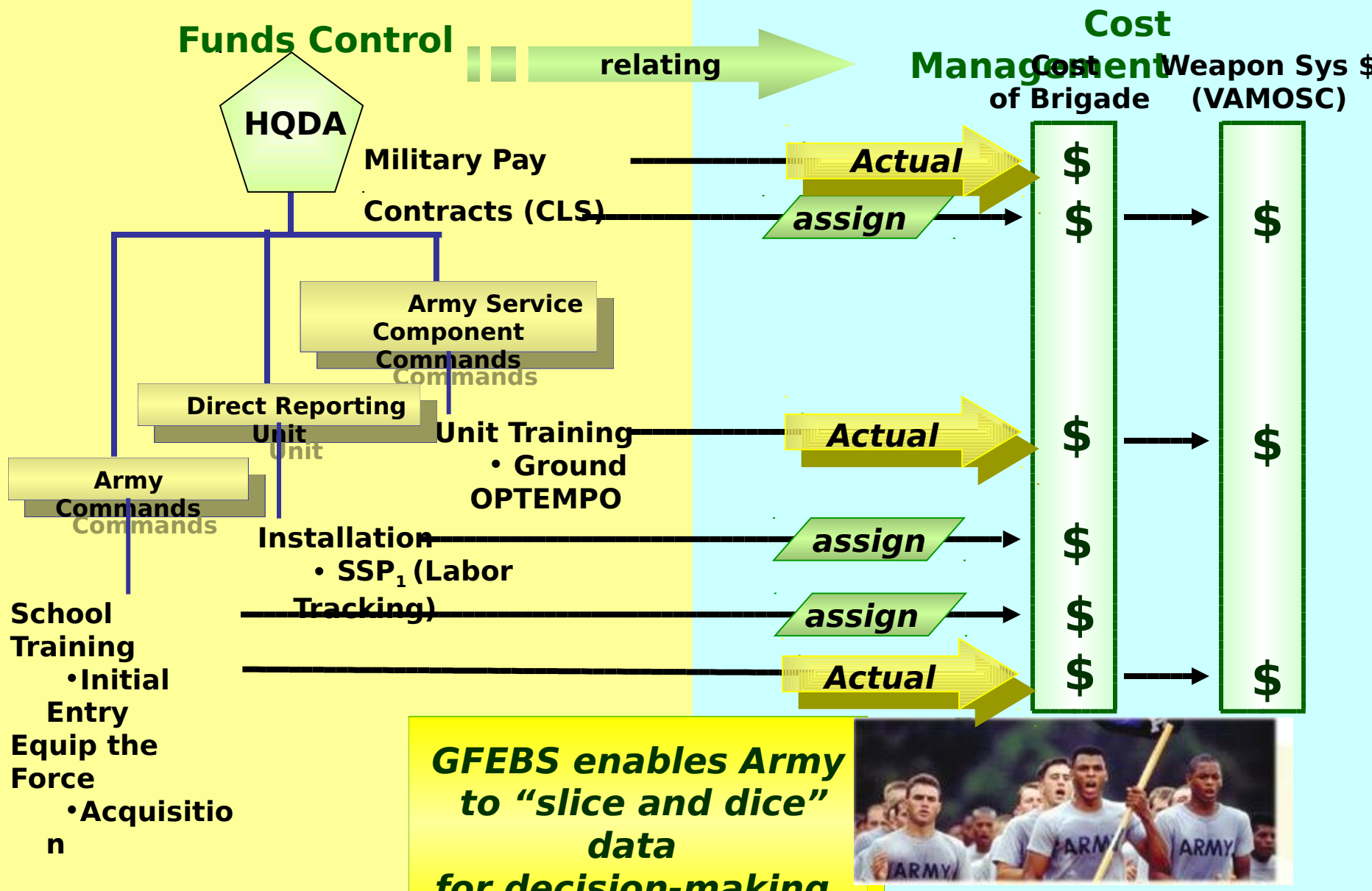
- » Equip Brigade
 - Weapon System (RDT&E & Procurement)
 - Depot overhaul
 - Transportation
- » Train Brigade
 - Training Ranges
 - OPTEMPO
- » Man Brigade
 - Recruit / Retain
 - Institutional Training
 - MILPERS (labor cost)
- » Support Brigade
 - Base Operations (IMA)
 - Other (e.g., NETCOM, MEDCOM, INSCOM, CIDC, USACE, MDW)
- » Brigade Operations
 - US Army (Central, North, South, Europe, Pacific), EUSA, SDDC, SMDC/ARSTRAT, USASOC
- » Corporate Overhead
 - HQDA & ARMY COMMAND HQs
 - Military Academy

HQDA will establish Enterprise-wide Business rules for:

- Allocation (At Appropriate Levels)
- Costing Methods
- Required Cost Structure

GFEBS Enables Funds Control And Cost Management

GFEBS 



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Army Cost Management Strategies for Efficiency & Continuous Improvement

GFEBS



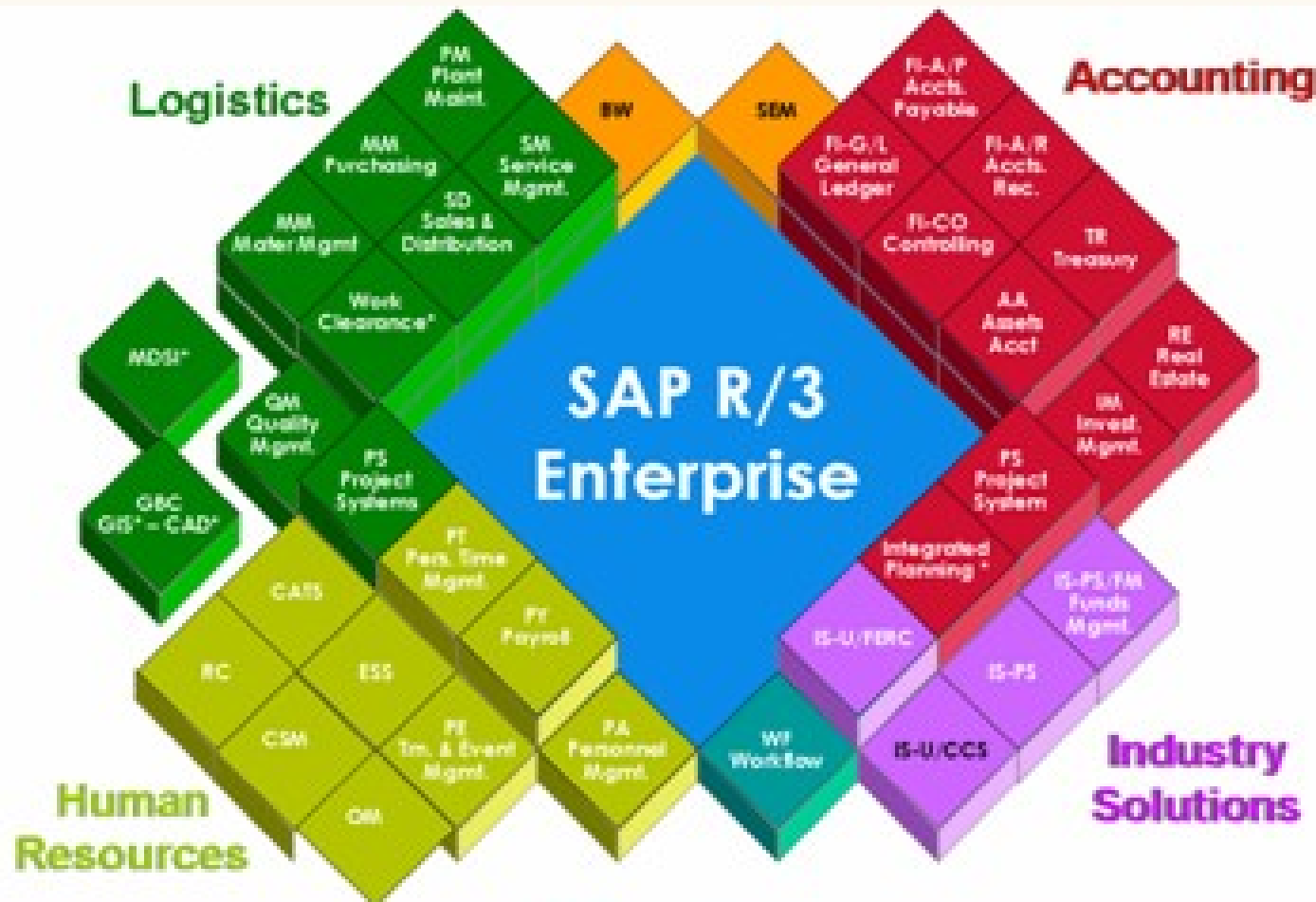
**Captures Low Hanging Fruit
Provides Initial Savings**

	Top Down / Centralized Approach	Operational Level / Decentralized Approach
One Time Fixes	<ul style="list-style-type: none"> - A-76 - Standardization - Reorganizations 	<ul style="list-style-type: none"> - Business Process Reengineering - Business Process Improvement - Reorganizations
Continuous Improvement	<ul style="list-style-type: none"> - Budget Management - Reduction Targets - GPRA, PMA 	<p>GFEBS Cost & Performance Management</p>

- Achieved through existing Financial Systems
- Reduces Spending
- Gains some

- Requires Managerial Costing
- Supported by Cost Accounting
- Leads to Efficiency & Effectiveness

SAP Provides Integrated Solution



Benefits of Integrated Cost and Financial System



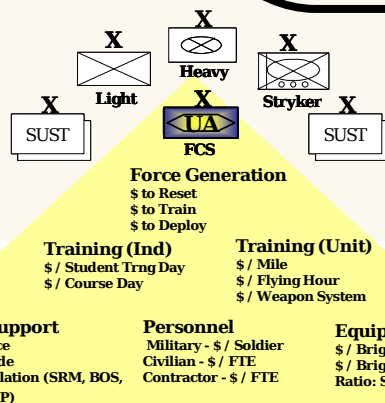
Financial (FI) Module	STANFINS	Controller (CO)
<ul style="list-style-type: none"> Compliant with CFO ACT and GAAP Standards Provides consistent, auditable and repeatable transactions that meet external reporting requirements. Separate but integrated transactions - maintains integrity of FI data while allowing costing flexibility in CO. Manageable, high level external reporting to meet Congressional, OSD, and Army requirements without low level, detailed reconciliations and reporting efforts 	<ul style="list-style-type: none"> X X X X 	<ul style="list-style-type: none"> Compliant with GPRA and FASAB Statement #4 Provides flexibility in capturing relevant cost information to meet recurring and one time internal management needs. Separate but integrated transactions - allows variations in CO costing with controls set in FI to manage financials. Cost & Execution can be captured at greater levels of detail, against programming and planning targets as required (integrated with non-financial data)

How Costs are Collected



Cost Objects	Organizational Entities	Real Property / Equipment	Program / Project	Task / Activity	Special Event or Initiative
GFEBS (SAP) Cost Collectors	Cost Centers	Assets / Real Estate Objects	Project / WBS	Business Process	Internal Order
Army Examples	<ul style="list-style-type: none"> • Installation • Brigade • School • Directorate • Lab 	<ul style="list-style-type: none"> • Building • Training Range • Weapon System 	<ul style="list-style-type: none"> • Acquisition • RDTE Project • MILCON Project • System Test 	<ul style="list-style-type: none"> • Service Support Program (SSP) • Instructional Course • Repair Process • Test Run 	<ul style="list-style-type: none"> • BRAC • Training Event • Mandatory Training • Support to Olympics

Cost assigned Directly or Indirectly



Customer / Product

- Brigade
- Tenant
- Command
- Weapon System
- PEO / PM
- Course

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Framework

3 Tiered Hierarchy of Master Data and Managerial Information:

Upper: Meet Legal & Regulatory Requirements (OSD, OMB, Congress)

Middle: Meet Leadership Information Requirements (Army, DoD)

Lower: Provide Managerial Information (Army Commands and below)

Macro Linkage of the 3 Tasks & Outcomes:

Budget Management

- Build and manage execution year Budgets below HQ Dept. of Army
 - Inform leadership decisions during execution year
 - Support formulation of the Army Budget

Funds Management

- Distribute funds
- Control funds
- Monitor funds execution
- Report legal and regulatory requirements

Cost Management

- Report cost for internal decision making
- Measure cost & performance execution
 - Conduct cost variance analysis
 - Link cost to outputs

Cost Management

Today and Tomorrow



Today

MEASUREMENT

- Business Areas supported by standalone software
- Crude links with financial systems
- No cost management structure - Cost roll-ups difficult
- Time & attendance w/o work indications

MANAGEMENT

- Budget Mgmt culture focused on Reporting
- Budget vs cost skills/staff imbalance

A large yellow arrow with a black outline, pointing from the 'Today' column to the 'With GFEBS Tomorrow' column. Inside the arrow, the text "HOW DO WE GET HERE ?" is written in bold black capital letters.

**HOW
DO
WE
GET
HERE
?**

With GFEBS Tomorrow

MEASUREMENT

- CM functionality in GFEBS directly linked with financial data
- Common cost management structure enables cost roll-ups
- Tracks Labor by Work Performed / Output

MANAGEMENT

- Cost Mgmt culture focused Internal Decision Making
- Budget vs cost skills/staff balanced

Today:

- ✓ Appropriation
- ✓ Organization
- ✓ MDEP
- ✓ Element of Resource (EOR)
- ✓ PE/AMSCO/APC
- ✓ Functional Cost Account
 - Typically captures financial obligation data
 - Not Full Cost
 - Financial Focus not Managerial
 - Not linked to Output

Tomorrow (GFEBS):

- ✓ Product
- ✓ Service
- ✓ Customer
- ✓ Tenant
- ✓ Facility
 - Based on accrual/expense by transaction
 - Will be Focused on Full Cost
 - For Internal Management not External Fiduciary Reporting
 - Linked to Output

Cost Collection Methods



Today:

- ✓ Independent Systems
- ✓ Data Calls
- ✓ Multiple Varying Structures
- ✓ Mapping, Manipulation and Gross Allocations
- ✓ Limited Labor Tracking / Cost Accounting

- Not Full Cost
- System Not Flexible
- Ad Hoc for Management Decisions
- Cost Collected Separately & Different

Tomorrow (GFEBS):

- ✓ Integrated System (ERP)
- ✓ Cost Accounting Functionality
- ✓ Controlling Module
 - Job Order Cost
 - Project Cost
 - Standard Costing
 - Activity Based Cost
- ✓ Will Track Labor

- Full Cost
- Standardization & Flexibility
- Provides Analytical Capabilities
- Cost Assigned to Appropriate Accounts

Cost Allocation



Today:

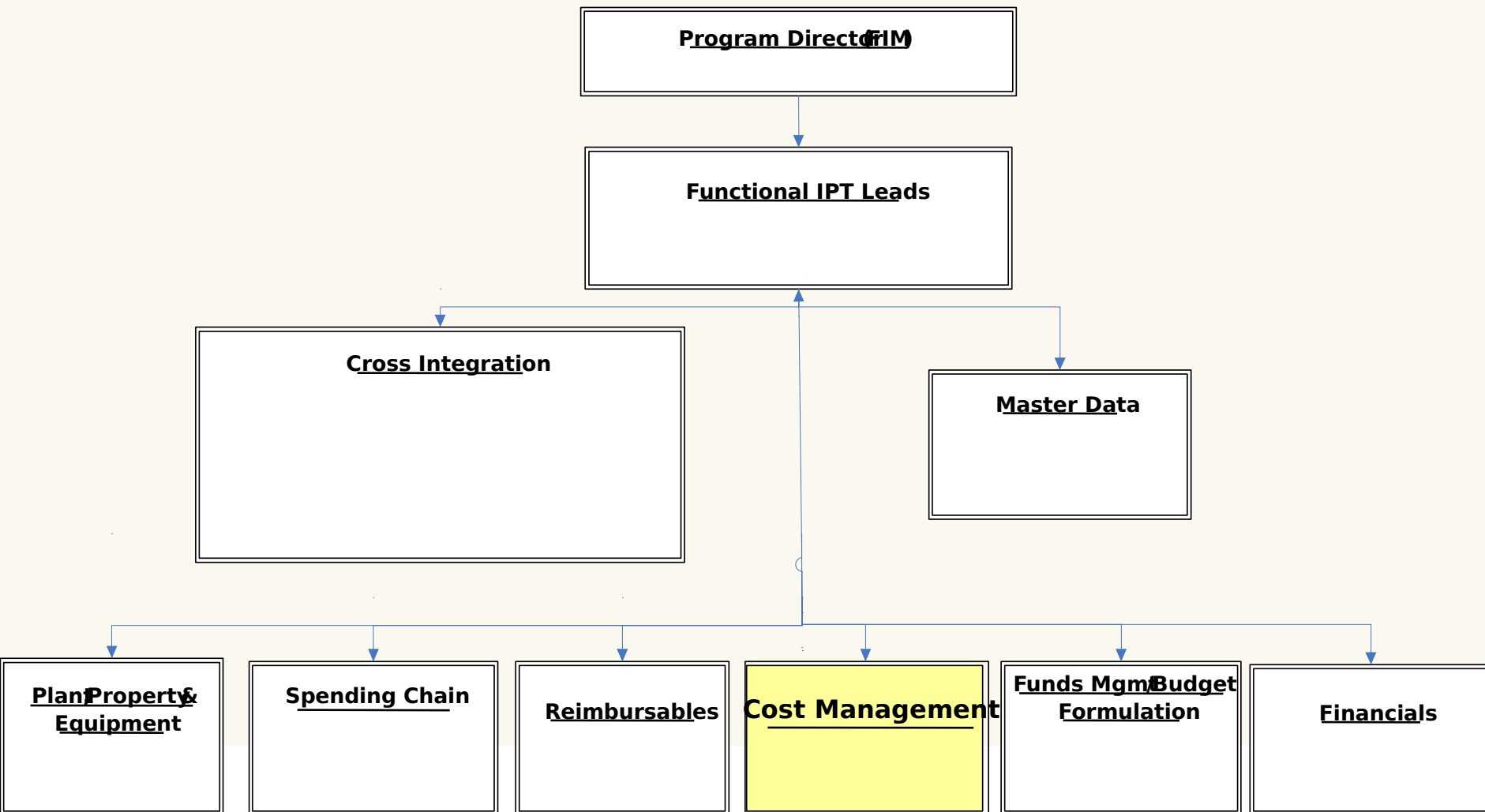
- ✓ Not All Cost Allocated
- ✓ Focused on Direct Obligation by Appropriation
- ✓ Assigned / Mapped to High Level Programs (e.g. MDEP)
- ✓ Allocation Done Differently by Organization
- Inconsistent Army Reporting
- Not Full Cost
- Financial Focus to Meet Budget Execution Reports
- Not linked to Output

Tomorrow (GFEBS):

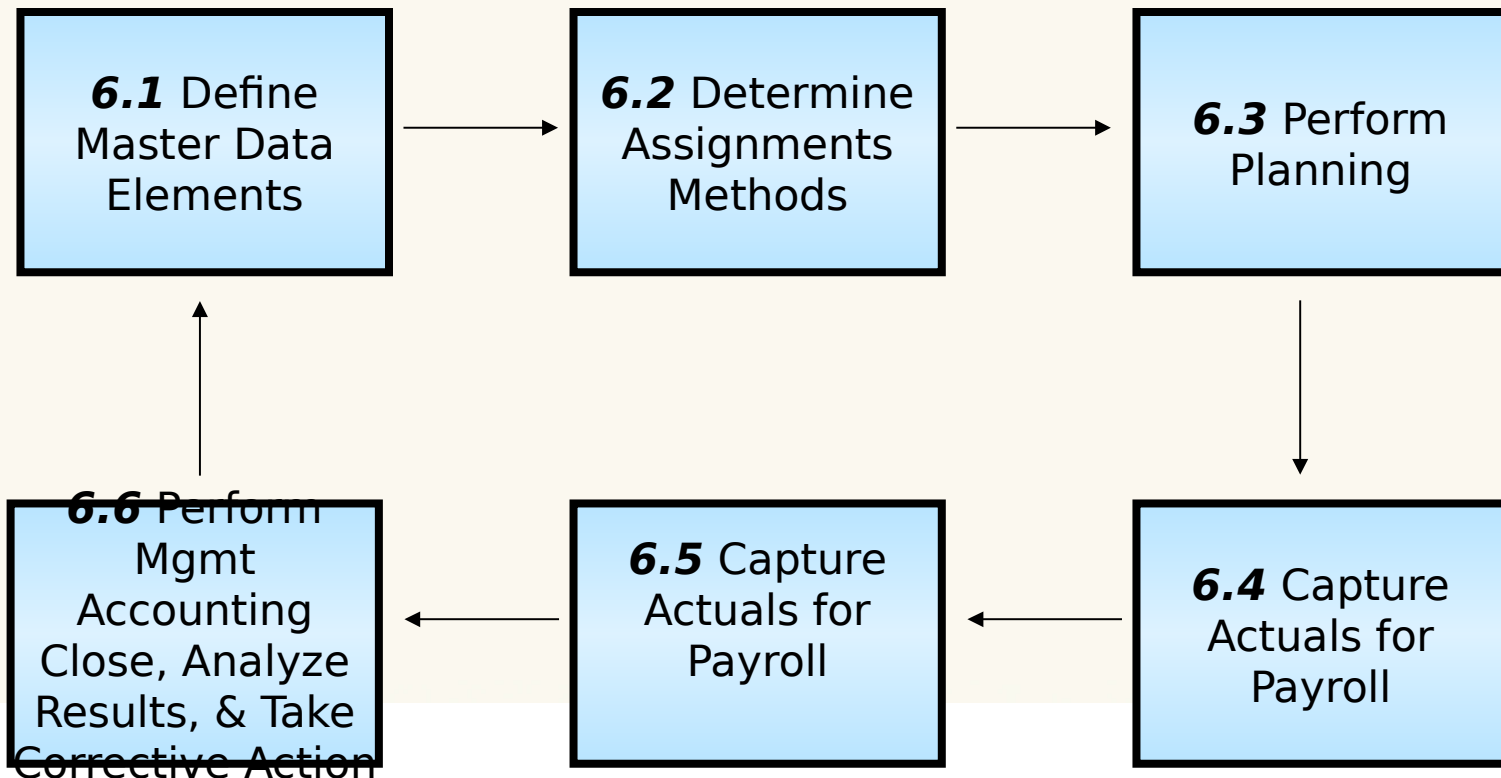
- ✓ Standardized Process
- ✓ Will Use Acceptable Cost Allocation Practices
- ✓ Will Provide Capability for Multiple Cost Allocations
- ✓ Allocations Only where Direct Assignments not Used
- Required for Full Cost Accuracy
- More Accurately Defines Overhead & Indirect Cost
- Maintains Budget Execution Capability
- Linked to Output

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Functional Integration IPT **GFEBS**



6.0 Cost Management (Perform Management Accounting)



▪ **Process Overview:**

» **The GFEBS implementation of the SAP Controlling component will provide the Army with full Cost Management functionality to:**

- Provide the Army with better decision support information by integrating expenditure, cost, and output data across the Army
- Enable Full Costing of product, service, organization, project, or other cost objects across the Army
- Enhance decision-making based on real-time, accurate, relevant, and transparent cost information
- Provide the ability to establish Cost Targets and Plans, Compare Actuals, and Improve Forecasts
- Retain all of the content and critical data relationships as they exist today in the legacy financial systems (e.g. DFAS 37-100 FCA, EORs, AMSCO point accounts) using SAP COTS cost objects

- Key Assumptions/Decisions:
 - » **Policy and Guidance** - HQDA will establish for Master Data, Cost Assignments, Time Tracking, Standard Rates, and Variance Reporting
 - » **GFEBS Cost Center Structure** - AR 10-87, OSD Organization Unique Identifier, and Army Unique Identifier Code will serve as foundation
 - » **Organizational Changes** - Originate by G3, G1, G8 through external process
 - » **Maximize Standardization** - standard assignment methods, rates and structures will be used where possible
 - » **Time Tracking** - will be used where applicable to associate work hours with detailed activities (e.g. Service/SSP)
- Degree of Change: High
 - » Majority of Army does not have standard cost objects defined in financial accounting system
 - » Army proponents currently create, collect, and use cost accounting data on ad hoc basis only
 - » Only limited cost accounting - Army reimbursable organizations (e.g. ATEC, ARDEC)

Release 1.2 Accomplishments To Date for Cost Mgmt Team



- Completed Blueprint Design
- Identified RICEFW
 - Reports
 - Interfaces
 - Conversions
 - Enhancements
 - Forms
 - Workflow
- Identified Potential Gaps in System Requirements
- Developing Conceptual Cost Model by Business Area
 - Currently Finalizing IMCOM
- Conducting Study of Labor Tracking Systems
- Conducting Study Methods for Capturing Contract Labor
- Design Phase Kickoff (1 May 07)